



Monthly Market Review

Information provided by VA SNAP's Investment Manager PFM Asset Management LLC

"Are we there yet?"

Economic Highlights

- As summer approaches, pandemic fears seem to be dissipating as a greater percentage of the U.S. population is vaccinated. More than 170 million Americans had received at least one dose by early June, and for the first time in over a year, the U.S. recorded a seven-day average of fewer than 20,000 new coronavirus cases.
- The U.S. economy added 559,000 jobs in May, much better than April's disappointing print of 275,000, but still shy of forecasts. There were notable job gains in leisure and hospitality, public and private education, and healthcare. Although positive, the pace of improvement seems to have slowed from the lofty expectations of a few months ago. The unemployment rate ticked lower to 5.8%, while real average hourly earnings decreased 2.8% over the past year due to rising inflation. The underemployment rate (U-6) also declined to 10.2%.
- Inflation readings continue to run hot, with the consumer price index surging 0.6% in May and 5.0% over the last 12 months, the largest increase since 2008. Compared to a year ago, there were outsized increases in the cost of car rentals (+110%), gasoline (+56.2%), used cars (+29.7%), airline tickets (+24.1%) and hotels (+10%) – goods and services that were depressed in the early days of the pandemic. On the other hand, many key commodity prices, like lumber, copper, aluminum and corn, fell from their recent highs.
- Retail sales stalled in April following a sharp climb in the prior month when spending was supported by pandemic-relief checks. Elevated savings should nevertheless support demand even as consumers shift spending to services amid easing lockdown restrictions.
- Minutes from the April Federal Open Market Committee meeting, released in mid-May, revealed some Federal Reserve (Fed) officials at least contemplating future tapering of bond purchases. The minutes noted that the Committee remains "attuned and attentive" to the inflation outlook amid supply shortages and other risk factors.

Bond Markets

- U.S. Treasury yields were largely unchanged over the month. At the short end of the yield curve, yields on 3- and 6-month Treasury bills remained in a very low and tight range. For intermediate and longer-term tenors, yields on benchmark Treasuries fell two to five basis points (bps).
- Quarter-to-date yields on 2-year and 10-year Treasuries have moved in tight ranges as bond market volatility subsided, awaiting direction from the economy and the Fed.
- The U.S. Treasury is expected to reduce its issuance of short-term Treasury bills, as it reduces its cash balance from \$800 billion to around \$130 billion by July 30 to comply with the coming expiration of a temporary expansion of the debt limit. The reduction will contribute further to the scarcity of T-Bills that is putting downward pressure on

short-term rates. The late summer will likely see the Treasury invoking extraordinary measures to keep the government operating and triggering typical political battles around the debt ceiling.

- Government bond benchmarks had positive performance in May across all tenors. The 3-month Treasury index performance was flat, while the 5- and 10-year indices advanced 0.43% and 0.51%, respectively.
- Investment-grade (IG) corporate bond benchmarks also had positive returns. Corporate issuance was robust in May with gross issuance at \$137.6 billion, which is higher than comparable levels in 2018 and 2019. Year-to-date, gross issuance totaled \$718 billion.

Equity Markets

- U.S. equity markets had a month of mixed performance after the sharp rise in values in the first part of the year. The S&P 500 and Dow Jones Industrial Average reached record highs, advancing 0.7% and 2.2%, respectively. The Nasdaq retreated 1.4%.
- Global developed market equities had strong returns, with the MSCI ACWI ex-U.S. benchmark up 3.13% in May as COVID-19 effects waned. The U.S. Dollar Index (DXY) depreciated, settling near multi-year lows. A dovish Fed and accelerating growth abroad are weighing on the dollar.

PFM Strategy Recap

- The outlook for the U.S. is strong, but inflation worries some investors. So far, the bond market appears to believe the Fed's assessment that inflation will be transitory. With bond volatility low, our duration stance remains generally neutral, but we remain focused on the timing of any Fed tapering and the curve steepening that would likely ensue.
- With virtually no incremental value in Federal agency securities, we continue to reduce positions in favor of Treasuries and other bond sectors.
- IG corporate spreads continue to retest multi-year lows as demand is robust and investors continue to reach for yield. Our approach is to reduce allocations while extending duration to capture the benefit of both the steeper yield curve and wider credit spreads available on longer maturities.
- New issue expectations for AAA-rated asset-backed securities (ABS) are tempered as we approach a seasonal summer slowdown. With spreads back to pre-pandemic levels, we will likely maintain current positions.
- Mortgage-backed securities (MBS) are very rich. With potential Fed tapering on the intermediate-term horizon, we plan to maintain our underweight to the sector.
- In money market, short-term rates are very low. T-Bills offer just a few basis points. Commercial paper and bank CDs yields are better, but supply remains constrained.

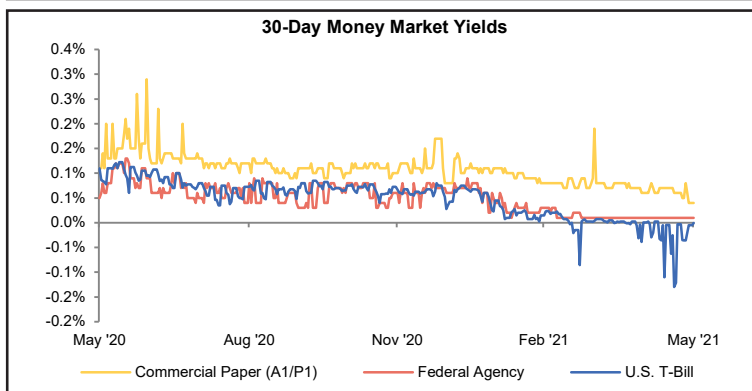
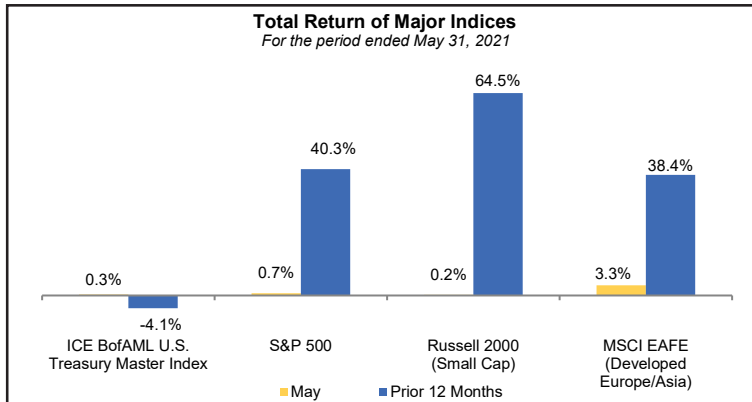
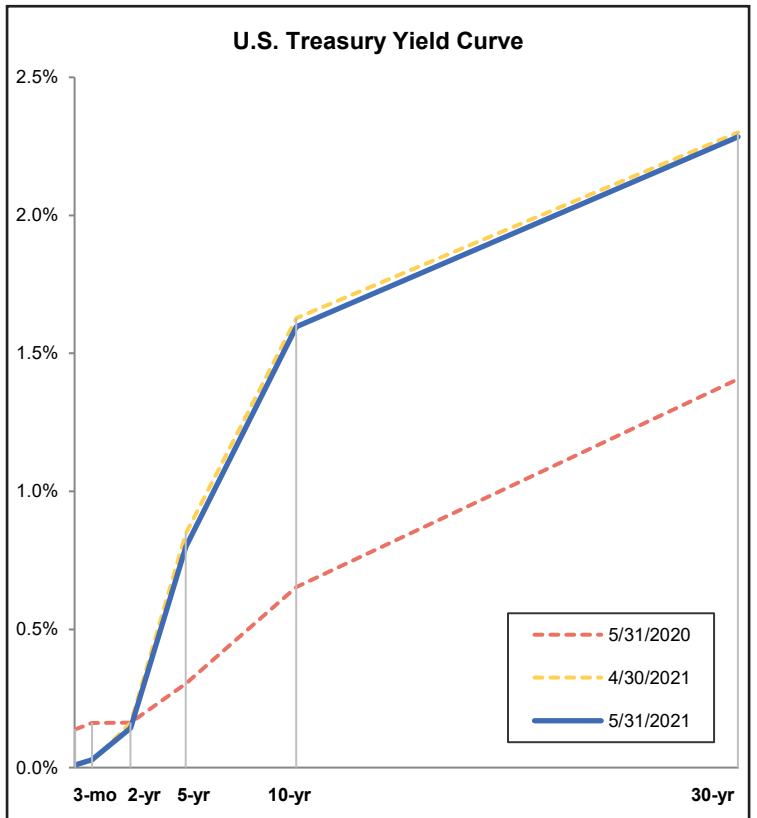
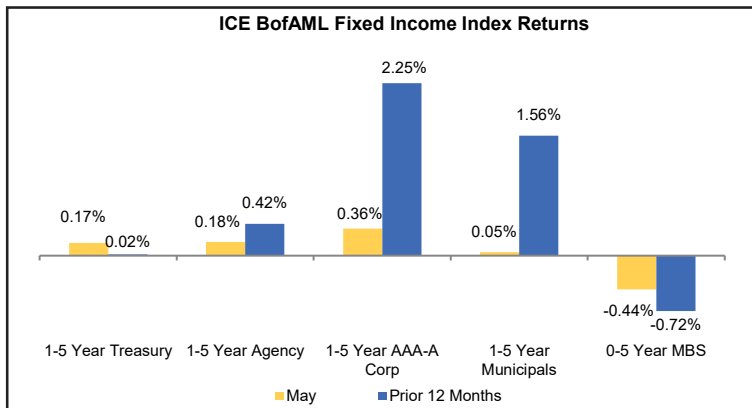
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U.S. Treasury Yields				
Duration	May 31, 2020	Apr 30, 2021	May 31, 2021	Monthly Change
3-Month	0.14%	0.01%	0.01%	0.00%
6-Month	0.16%	0.02%	0.03%	0.01%
2-Year	0.16%	0.16%	0.14%	-0.02%
5-Year	0.30%	0.85%	0.80%	-0.05%
10-Year	0.65%	1.63%	1.60%	-0.03%
30-Year	1.41%	2.30%	2.28%	-0.02%

Yields by Sector and Maturity as of May 31, 2021				
Maturity	U.S. Treasury	Federal Agency	Corporates-A Industrials	AAA Municipals
3-Month	0.01%	0.01%	0.11%	-
6-Month	0.03%	0.02%	0.13%	-
2-Year	0.14%	0.14%	0.24%	0.20%
5-Year	0.80%	0.81%	1.06%	0.52%
10-Year	1.60%	1.64%	2.14%	1.24%
30-Year	2.28%	2.25%	3.11%	1.80%

Spot Prices and Benchmark Rates				
Index	May 31, 2020	Apr 30, 2021	May 31, 2021	Monthly Change
1-Month LIBOR	0.18%	0.11%	0.09%	-0.02%
3-Month LIBOR	0.34%	0.18%	0.13%	-0.05%
Effective Fed Funds Rate	0.05%	0.05%	0.05%	0.00%
Fed Funds Target Rate	0.25%	0.25%	0.25%	0.00%
Gold (\$/oz)	\$1,737	\$1,768	\$1,903	\$135
Crude Oil (\$/Barrel)	\$35.49	\$63.58	\$66.32	\$2.74
U.S. Dollars per Euro	\$1.11	\$1.20	\$1.22	\$0.02

Economic Indicators				
Indicator	Release Date	Period	Actual	Survey (Median)
Retail Sales Advance MoM	14-May	Apr	0.0%	1.0%
Consumer Confidence	25-May	May	117.2	118.8
GDP Annualized QoQ	27-May	1Q S	6.4%	6.5%
PCE Core Deflator YoY	28-May	Apr	3.1%	2.9%
ISM Manufacturing	1-Jun	May	61.2	61.0
Change in Nonfarm Payrolls	4-Jun	May	559k	675k
Unemployment Rate	4-Jun	May	5.8%	5.9%



Source: Bloomberg. Data as of May 31, 2021, unless otherwise noted. The views expressed constitute the perspective of PFM Asset Management LLC at the time of distribution and are subject to change. The content is based on sources generally believed to be reliable and available to the public; however, PFM cannot guarantee its accuracy, completeness or suitability. This material is for general information purposes only and is not intended to provide specific advice or a specific recommendation. PFM is the marketing name for a group of affiliated companies providing a range of services. All services are provided through separate agreements with each company. Investment advisory services are provided by PFM Asset Management LLC, which is registered with the SEC under the Investment Advisers Act of 1940. For more information regarding PFM's services or entities, please visit www.pfm.com.

